

TOWNSHIP OF CUSTER
Mason County, Michigan

FINANCIAL REPORT WITH
SUPPLEMENTARY INFORMATION

Year Ended March 31, 2006

AUDITING PROCEDURES REPORT

Issue under P.A. 2 of 1968, as amended. Filing is mandatory.

Local Government Type <input type="checkbox"/> City <input checked="" type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name Township of Custer	County Mason
Audit Date March 31, 2006	Opinion Date June 29, 2006	Date Accountant Report Submitted to State: July 20, 2006	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ yes ☒ no 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ yes ☒ no 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☒ yes ☐ no 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ yes ☒ no 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ yes ☒ no 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ yes ☒ no 6. The local unit has been delinquent distributing tax revenues that were collected for another taxing unit.
- ☐ yes ☒ no 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during they year).
- ☐ yes ☒ no 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ yes ☒ no 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	X		
Reports on individual federal financial assistance programs (program audits).			X
Single Audit Reports (ASLGU).			X

Certified Public Accountant (Firm Name) Campbell, Kusterer & Co., P.C.			
Street Address 512 N. Lincoln, Suite 100, P.O. Box 686		City Bay City	State MI
Accountant Signature Campbell, Kusterer & Co., P.C.		Zip 48707	

TOWNSHIP OF CUSTER
Mason County, Michigan

TABLE OF CONTENTS

	<u>Page</u>
Independent Auditors' Report	1
Management's Discussion and Analysis	2-3
Basic Financial Statements:	
Government-wide Financial Statements:	
Government-wide Statement of Net Assets	4
Government-wide Statement of Activities	5
Fund Financial Statements:	
Governmental Fund:	
Balance Sheet	6
Reconciliation of Balance Sheet of Governmental Fund to the Statement of Net Assets	7
Statement of Revenues, Expenditures, and Changes in Fund Balances	8
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balance of Governmental Fund to the Statement of Activities	9
Notes to Financial Statements	10-15
Required Supplemental Information:	
Budgetary Comparison Schedule – General Fund	16
Other supporting information:	
General Fund Expenditures by Detailed Account	17-18
Current Tax Collection Fund – Statement of Changes in Assets and Liabilities	19

CAMPBELL, KUSTERER & CO., P.C.

CERTIFIED PUBLIC ACCOUNTANTS

MARK J. CAMPBELL, CPA
KENNETH P. KUSTERER, CPA

512 N. LINCOLN AVE. - SUITE 100
P.O. BOX 686
BAY CITY, MICHIGAN 48707

TEL (989) 894-1040
FAX (989) 894-5494

June 29, 2006

INDEPENDENT AUDITOR'S REPORT

To the Township Board
Township of Custer
Mason County, Michigan

We have audited the accompanying financial statements of the governmental activities and each major fund of Township of Custer, Mason County, Michigan as of and for the year ended March 31, 2006, which collectively comprise the Township's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Township of Custer's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Township of CUSTER, Mason County, Michigan as of March 31, 2006, and the respective changes in financial position thereof, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 1, the Township has implemented a new financial reporting model, as required by the provisions of GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, as of April 1, 2005.

The Management's Discussion and Analysis and budgetary comparison information listed in the table of contents are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the Township's basic financial statements. The other supporting information described in the accompanying table of contents is presented for the purpose of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied by us in the audit of the basic financial statements and, in our opinion, it is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Campbell, Kusterer & CO., P.C.
CAMPBELL, KUSTERER & CO., P.C.
Certified Public Accountants

TOWNSHIP OF CUSTER
Mason County, Michigan

MANAGEMENT'S DISCUSSION AND ANALYSIS
For the year ended March 31, 2006

The Management's Discussion and Analysis report of the Township of Custer covers the Township's financial performance during the year ended March 31, 2006.

FINANCIAL HIGHLIGHTS

Our financial status remained stable over the last year. Net assets at March 31, 2006, totaled \$190,327.53 for governmental activities.

Overall revenues were \$122,956.99. Governmental activities had a \$13,264.62 increase in net assets.

We did not incur any new debt.

OVERVIEW OF FINANCIAL STATEMENTS

This annual report consists of three parts, management's discussion and analysis, the basic financial statements and required supplementary information. The basic financial statements include two different kinds of statements that present different views of the Township and the notes to the financial statements.

The first two statements are entity-wide financial statements and provide both long and short-term information about our overall financial status. These statements present governmental activities.

The remaining statements are fund financial statements, which focus on individual parts of the Township in more detail.

The notes to the financial statements explain some of the information in the statements and provide more detailed data.

Required supplementary information further explains and supports the financial statement information with budgetary comparisons.

ENTITY-WIDE FINANCIAL STATEMENTS

The entity-wide statements report information about the Township as a whole using accounting methods used by private companies. The statement of net assets includes all of the Township's assets and liabilities. The statement of activities records all of the current year revenues and expenses regardless of when received or paid.

The two entity-wide statements report net assets and how they have changed. Net assets are the difference between the entity's assets and liabilities and this is one method to measure the entity's financial health or position.

Over time increases/decreases in the entity's net assets are an indicator of whether financial position is improving or deteriorating.

To assess overall health of the entity you may also have to consider additional factors such as tax base changes, facility conditions and personnel changes.

All of the activities of the Township are reported as governmental activities. This includes the General Fund and the Cemetery Perpetual Care Fund.

TOWNSHIP OF CUSTER
Mason County, Michigan

MANAGEMENT'S DISCUSSION AND ANALYSIS
For the year ended March 31, 2006

FUND FINANCIAL STATEMENTS

The fund financial statements provide more detailed information about the Township's funds, focusing on significant (major) funds not the Township as a whole. Funds are used to account for specific activities or funding sources. Some funds are required by law or bond covenants. The Township Board also may create them. Funds are established to account for funding and spending of specific financial resources and to show proper expenditures of those resources.

The Township has the following types of funds:

Governmental funds: All of the Township's activities are included in the governmental category. These funds are presented on the modified accrual basis, which is designed to show short-term financial information. You will note that the differences between the Township's entity-wide statements and the fund statements are disclosed in reconciling statements to explain the differences between them. The Township's governmental activities include the General Fund and the Cemetery Perpetual Care Fund.

FINANCIAL ANALYSIS OF THE TOWNSHIP AS A WHOLE

Our cash position in the governmental activities remains stable.

FINANCIAL ANALYSIS OF THE TOWNSHIP'S FUNDS

The General Fund pays for all of the Township's governmental services. The most significant are roads which incurred expenses of \$29,617.39.

CAPITAL ASSET AND LONG-TERM DEBT ACTIVITY

The Township's governmental activities invested \$5,800.00 in capital assets this year.

The Township has no debt at this time.

KNOWN FACTORS AFFECTING FUTURE OPERATIONS

The future of state revenue sharing is very clouded and it represents a significant portion of our income.

CONTACTING THE TOWNSHIP'S MANAGEMENT

This financial report is designed to provide our taxpayers, creditors, investors and customers with a general overview of the Townships finances and to demonstrate the Township's accountability for the revenues it receives. If you have any questions concerning this report please contact the Township Supervisor at (231)757-3696 or 3389 E. US 10, Custer, MI 49405.

TOWNSHIP OF CUSTER
Mason County, Michigan

GOVERNMENT-WIDE STATEMENT OF NET ASSETS
March 31, 2006

	<u>Governmental Activities</u>
ASSETS:	
CURRENT ASSETS:	
Cash in bank	168 097 34
Taxes receivable	<u>3 790 19</u>
Total Current Assets	<u>171 887 53</u>
NON-CURRENT ASSETS:	
Capital Assets	27 800 00
Less: Accumulated Depreciation	<u>(9 360 00)</u>
Total Non-current Assets	<u>18 440 00</u>
TOTAL ASSETS	<u><u>190 327 53</u></u>
LIABILITIES AND NET ASSETS:	
LIABILITIES:	
CURRENT LIABILITIES	<u>-</u>
Total Current Liabilities	<u>-</u>
NET ASSETS:	
Invested in Capital Assets, Net of Related Debt	18 440 00
Reserved for cemetery	65 281 71
Unrestricted	<u>106 605 82</u>
Total Net Assets	<u><u>190 327 53</u></u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>190 327 53</u></u>

The accompanying notes are an integral part of these financial statements.

TOWNSHIP OF CUSTER
Mason County, Michigan

GOVERNMENT-WIDE STATEMENT OF ACTIVITIES
Year ended March 31, 2006

	<u>Expenses</u>	<u>Program Revenue</u>	<u>Governmental Activities Net (Expense) Revenue and Changes in Net Assets</u>
FUNCTIONS/PROGRAMS		<u>Charges for Services</u>	
Governmental Activities:			
Legislative	4 256 10	-	(4 256 10)
General government	63 822 56	12 780 15	(51 042 41)
Public safety	10 996 32	-	(10 996 32)
Public works	29 617 39	-	(29 617 39)
Culture and recreation	1 000 00	-	(1 000 00)
Total Governmental Activities	<u>109 692 37</u>	<u>12 780 15</u>	<u>(96 912 22)</u>
General Revenues:			
Property taxes			28 136 07
State revenue sharing			69 837 52
Interest			5 213 79
Miscellaneous			<u>6 989 46</u>
Total General Revenues			<u>110 176 84</u>
Change in net assets			13 264 62
Net assets, beginning of year			<u>177 062 91</u>
Net Assets, End of Year			<u>190 327 53</u>

The accompanying notes are an integral part of these financial statements.

TOWNSHIP OF CUSTER
Mason County, Michigan

BALANCE SHEET – GOVERNMENTAL FUNDS

March 31, 2006

	<u>General</u>	<u>Building</u>	<u>Total</u>
<u>Assets</u>			
Cash in bank	102 419 46	65 281 71	167 701 17
Taxes receivable	37 901 19	-	3 790 19
Due from other funds	396 17	-	396 17
Total Assets	<u>106 605 82</u>	<u>65 281 71</u>	<u>171 887 83</u>
<u>Liabilities and Fund Equity</u>			
Liabilities	-	-	-
Total liabilities	-	-	-
Fund equity:			
Fund balances:			
Reserved for cemetery	-	65 281 71	65 281 71
Unreserved:			
Undesignated	106 605 82	-	106 605 82
Total fund equity	<u>106 605 82</u>	<u>65 281 71</u>	<u>171 887 53</u>
Total Liabilities and Fund Equity	<u>106 605 82</u>	<u>65 281 71</u>	<u>171 887 53</u>

The accompanying notes are an integral part of these financial statements.

TOWNSHIP OF CUSTER
Mason County, Michigan

RECONCILIATION OF BALANCE SHEET OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET ASSETS
March 31, 2006

TOTAL FUND BALANCES – GOVERNMENTAL FUNDS	171 887 53
Amounts reported for governmental activities in the statement of net assets are different because –	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds balance sheet:	
Capital assets at cost	27 800 00
Accumulated depreciation	<u>(9 360 00)</u>
TOTAL NET ASSETS – GOVERNMENTAL ACTIVITIES	<u>190 327 53</u>

The accompanying notes are an integral part of these financial statements.

TOWNSHIP OF CUSTER
Mason County, Michigan

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
GOVERNMENTAL FUNDS
Year ended March 31, 2006

	<u>General</u>	<u>Cemetery Perpetual Care</u>	<u>Total</u>
Revenues:			
Property taxes	28 136 07	-	28 136 07
State revenue sharing	69 837 52	-	69 837 52
Charges for services	12 780 15	-	12 780 15
Interest	3 057 96	2 155 83	5 213 79
Miscellaneous	6 164 46	825 00	6 989 46
Total revenues	<u>119 976 16</u>	<u>2 980 83</u>	<u>122 956 99</u>
Expenditures:			
Legislative:			
Township Board	4 256 10	-	4 256 10
General government:			
Supervisor	6 336 00	-	6 336 00
Elections	1 181 29	-	1 181 29
Clerk	7 015 93	-	7 015 93
Assessor	11 923 79	-	11 923 79
Board of Review	618 84	-	618 84
Treasurer	10 619 22	-	10 619 22
Cemetery	12 608 01	-	12 608 01
Building and grounds	1 200 00	-	1 200 00
Unallocated	10 759 48	-	10 759 48
Public safety:			
Fire protection	10 996 32	-	10 996 32
Public works:			
Highways and streets	29 617 39	-	29 617 39
Culture and recreation:			
Parks and recreation	1 000 00	-	1 000 00
Capital outlay	5 800 00	-	5 800 00
Total expenditures	<u>113 932 37</u>	<u>-</u>	<u>113 932 37</u>
Excess of revenues over expenditures	6 043 79	2 980 83	9 024 62
Other financing sources (uses):			
Operating transfers in	2 152 86	-	2 152 86
Operating transfers out	-	(2 152 86)	(2 152 86)
Total other financing sources (uses)	<u>2 152 86</u>	<u>(2 152 86)</u>	<u>-</u>
Excess (deficiency) of revenues and other sources over expenditures expenditures other uses	8 196 65	827 97	9 024 62
Fund balances, April 1	<u>98 409 17</u>	<u>64 453 74</u>	<u>162 862 91</u>
Fund Balances, March 31	<u><u>106 605 82</u></u>	<u><u>65 281 71</u></u>	<u><u>171 887 53</u></u>

The accompanying notes are an integral part of these financial statements.
8.

TOWNSHIP OF CUSTER
Mason County, Michigan

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

Year ended March 31, 2006

NET CHANGE IN FUND BALANCES – TOTAL GOVERNMENTAL FUNDS 9 024 62

Amounts reported for governmental activities in the Statement of Activities are different because:

Governmental funds report capital outlays as expenditures; in the Statement of Activities,
these costs are allocated over their estimated useful lives as depreciation

Depreciation Expense	(1 560 00)
Capital Outlay	<u>5 800 00</u>

CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES	<u><u>13 264 62</u></u>
---	-------------------------

The accompanying notes are an integral part of these financial statements.

TOWNSHIP OF CUSTER
Mason County, Michigan

NOTES TO FINANCIAL STATEMENTS
March 31, 2006

Note 1 – Summary of Significant Accounting Policies

The accounting policies of the Township of Custer, Mason County, Michigan, conform to generally accepted accounting principles as applicable to governmental units.

Reporting Entity

The financial statements of the Township contain all the Township funds that are controlled by or dependent on the Township's executive or legislative branches.

The reporting entity is the Township of Custer. The Township is governed by an elected Township Board. As required by generally accepted accounting principles, these financial statements present the Township as the primary government.

Government-Wide and Fund Financial Statements

The government-wide financial statements, (the Statement of Net Assets and the Statement of Changes in Net Assets) report information on all of the non-fiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. All the Township's government-wide activities are considered governmental activities.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include: (1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes, intergovernmental payments and other items not properly included among program revenues are reported as general revenue.

Major individual governmental funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. When an expense is incurred for purposes for which both restricted and unrestricted net assets are available, restricted resources are applied first.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

TOWNSHIP OF CUSTER
Mason County, Michigan

NOTES TO FINANCIAL STATEMENTS
March 31, 2006

Note 1 – Summary of Significant Accounting Policies (continued)

Governmental Funds

General Fund

This fund is used to account for all financial transactions except those required to be accounted for in another fund. The fund includes the general operating expenditures of the local unit. Revenues are derived primarily from property taxes, state and federal distributions, grants, and other intergovernmental revenues.

Permanent Fund

The Cemetery Perpetual Care Fund is used to account for the care of the cemetery.

Fiduciary Fund

The Current Tax Collection Fund is used to account for assets held as an agent for others.

Assets, Liabilities and Net Assets or Equity

Bank deposits and investments – Cash and cash equivalent investments include cash on hand, demand deposits, certificates of deposit and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

Receivables

Receivables have been recognized for all significant amounts due to the Township. Allowances for uncollectible accounts have not been provided for in that collection is not considered doubtful and any uncollected amount would be immaterial.

Inventories

Inventories of supplies are considered to be immaterial and are not recorded.

Property Taxes

Property taxes and other revenue that are both measurable and available for use to finance operations are recorded as revenue when earned.

Properties are assessed as of December 31 and the related property taxes become a lien on December 1 of the following year. These taxes are due on February 14 with the final collection date of February 28 before they are added to the county tax rolls. The 2005 tax roll millage rate was .9374 mills, and the taxable value was \$30,070,068.00.

Encumbrances

Encumbrances involving the current recognition of purchase orders, contracts and other commitments for future expenditures are not recorded.

TOWNSHIP OF CUSTER
Mason County, Michigan

NOTES TO FINANCIAL STATEMENTS
March 31, 2006

Note 1 – Summary of Significant Accounting Policies (continued)

Capital Assets

Capital assets are defined by the Township as assets with an initial cost of more than \$1,000.00 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost. Donated assets are reported at estimated fair market value at the date of donation. Additions, improvements and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. Depreciation on all assets is provided on the straight-line basis over the following estimated useful lives:

Building	50 years
Equipment	5 years

Compensated Absences (Vacation and Sick Leave)

Employees are not allowed to accumulate vacation and sick pay.

Post-employment Benefits

The Township provides no post-employment benefits to past employees.

Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Accounting Change

Effective April 1, 2005, the Township implemented the provisions of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments* (GASB No. 34). Changes to the Township's financial statements as a result of GASB No. 34 are as follows:

A Management's Discussion and Analysis (MD&A) section providing analysis of the Township's overall financial position and results of operations has been included.

Government-wide financial statements (Statement of Net Assets and Statement of Activities) prepared using the full accrual accounting for all the Township's activities have been provided.

Capital assets in the governmental activities column of the Statement of Net Assets include net assets totaling \$18,440.00.

Note 2 – Budgets and Budgetary Accounting

The following procedures are followed in establishing the budgetary data reflected in these financial statements:

1. Prior to the beginning of the fiscal year, the proposed budget for each budgetary fund is submitted to the Township Board for consideration.
2. The proposed budgets include expenditures as well as the methods of financing them.

TOWNSHIP OF CUSTER
Mason County, Michigan

NOTES TO FINANCIAL STATEMENTS
March 31, 2006

Note 2 – Budgets and Budgetary Accounting (continued)

3. Public hearings are held to obtain taxpayer comments.
4. The budgets are adopted at the activity level by a majority vote of the Township Board.
5. The budgets are adopted on the modified accrual basis of accounting.
6. The originally adopted budgets can be amended during the year only by a majority vote of the Township Board.
7. The adopted budgets are used as a management control device during the year for all budgetary funds.
8. Budget appropriations lapse at the end of each fiscal year.
9. The budgeted amounts shown in these financial statements are the originally adopted budgets with all amendments that were approved by the Township Board during the fiscal year.

Note 3 – Deposits and Investments

Michigan Compiled Laws, Section 129.91, authorizes the Township to deposit and invest in the accounts of federally insured banks, credit unions, and savings and loan associations; bonds, securities and other direct obligations of the United States, or any agency or instrumentality of the United States; United States government or federal agency obligation repurchase agreements; banker's acceptance of United States banks; commercial paper rated within the two highest classifications, which mature not more than 270 days after the date purchase; obligations of the State of Michigan or its political subdivisions which are rated as investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan. Financial institutions eligible for deposit of public funds must maintain an office in Michigan.

The Township Board has designated one bank for the deposit of Township funds. The investment policy adopted by the board in accordance with Public Act 196 of 1997 has authorized investment in all investments authorized by state law as listed above.

The Township's deposits and investments are in accordance with statutory authority.

The Governmental Accounting Standards Board Statement No. 3, risk disclosures for the cash deposits are as follows:

	<u>Carrying Amounts</u>
Total Deposits	<u>168,097.34</u>

Amounts in the bank balances are without considering deposits in transit or uncleared checks.

TOWNSHIP OF CUSTER
Mason County, Michigan

NOTES TO FINANCIAL STATEMENTS
March 31, 2006

Note 3 – Deposits and Investments (continued)

	<u>Bank Balances</u>
Insured (FDIC)	100 939 17
Uninsured and Uncollateralized	<u>67 872 34</u>
Total Deposits	<u>168 811 51</u>

The Township did not have any investments as of March 31, 2006.

Note 4 – Capital Assets

Capital asset activity of the Township's Governmental activities for the current year was as follows:

	<u>Balance 4/1/05</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance 3/31/06</u>
<u>Governmental Activities:</u>				
Land	2 000 00	-	-	2 000 00
Building	20 000 00	-	-	20 000 00
Equipment	<u>-</u>	<u>5 800 00</u>	<u>-</u>	<u>5 800 00</u>
Total	22 000 00	5 800 00	-	27 800 00
Accumulated Depreciation	<u>(7 800 00)</u>	<u>(1 560 00)</u>	<u>-</u>	<u>(9 360 00)</u>
Net Capital Assets	<u>14 200 00</u>	<u>4 240 00</u>	<u>-</u>	<u>18 440 00</u>

Note 5 – Pension Plan

The Township has a defined contribution pension plan covering substantially all full time employees. The Township contributes an amount of each employee's annual salary to the plan. Pension expense for the fiscal year ended March 31, 2006 was \$833.10.

Note 6 – Deferred Compensation Plan

The Township does not have a deferred compensation plan.

Note 7 – Risk Management

The Township is exposed to various risks of loss related to property loss, torts, errors, omissions, and employee injuries (workers' compensation). The Township has purchased commercial insurance for property loss, torts and workers' compensation claims. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

Note 8 – Building Permits

The Township of Custer does not issue building permits. Building permits are issued by the County of Mason.

TOWNSHIP OF CUSTER
Mason County, Michigan

NOTES TO FINANCIAL STATEMENTS
March 31, 2006

Note 9 – Interfund Receivables and Payables

The amounts of interfund receivables and payables are as follows:

<u>Fund</u>	<u>Interfund Receivable</u>	<u>Fund</u>	<u>Interfund Payable</u>
General	<u>396 17</u>	Current Tax Collection	<u>396 17</u>
Total	<u>396 17</u>	Total	<u>396 17</u>

Note 10 – Transfers In and Transfers Out

For the fiscal year ended March 31, 2006, the Township made the following interfund transfers::

<u>Fund</u>	<u>Transfers In</u>	<u>Fund</u>	<u>Transfers Out</u>
General	<u>2 152 86</u>	Current Tax Collection	<u>2 152 86</u>
Total	<u>2 152 86</u>	Total	<u>2 152 86</u>

TOWNSHIP OF CUSTER
Mason County, Michigan

BUDGETARY COMPARISON SCHEDULE – GENERAL FUND
Year ended March 31, 2006

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Over (Under)</u>
Revenues:				
Property taxes	25 000 00	25 000 00	28 136 07	3 136 07
State revenue sharing	69 300 00	69 300 00	69 837 52	537 52
Charges for services	5 500 00	5 500 00	12 780 15	7 280 15
Interest	1 500 00	1 500 00	3 057 96	1 557 96
Miscellaneous	<u>4 240 00</u>	<u>4 240 00</u>	<u>6 164 46</u>	<u>1 924 46</u>
Total revenues	<u>105 540 00</u>	<u>105 540 00</u>	<u>119 976 16</u>	<u>14 436 16</u>
Expenditures:				
Legislative:				
Township Board	4 500 00	4 500 00	4 256 10	(243 90)
General government:				
Supervisor	6 550 00	6 550 00	6 336 00	(214 00)
Elections	2 335 00	2 335 00	1 181 29	(1 153 71)
Clerk	7 450 00	7 450 00	7 015 93	(434 07)
Assessor	12 000 00	12 000 00	11 923 79	(76 21)
Board of Review	1 000 00	1 000 00	618 84	(381 16)
Treasurer	10 170 00	10 741 62	10 619 22	(122 40)
Cemetery	12 200 00	12 608 01	12 608 01	-
Building and grounds	1 200 00	1 200 00	1 200 00	-
Unallocated	15 335 00	15 335 00	10 759 48	(4 575 52)
Contingency	10 000 00	10 000 00	-	(10 000 00)
Public safety:				
Fire protection	11 000 00	11 000 00	10 996 32	(3 68)
Public works:				
Highways and streets	80 000 00	80 000 00	29 617 39	(50 382 61)
Culture and recreation:				
Parks and recreation	6 000 00	6 000 00	1 000 00	(5 000 00)
Capital outlay	<u>5 800 00</u>	<u>5 800 00</u>	<u>5 800 00</u>	<u>-</u>
Total expenditures	<u>185 540 00</u>	<u>186 519 63</u>	<u>113 932 37</u>	<u>(72 587 26)</u>
Excess (deficiency) of revenues over expenditures	(80 000 00)	(80 979 63)	6 043 79	87 023 42
Other financing sources (uses):				
Operating transfers in	-	-	2 152 86	2 152 86
Operating transfers out	-	-	-	-
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>2 152 86</u>	<u>2 152 86</u>
Excess (deficiency) of revenues and other sources over expenditures and other uses	(80 000 00)	(80 979 63)	8 196 65	89 176 28
Fund balance, April 1	<u>80 000 00</u>	<u>80 979 63</u>	<u>98 409 17</u>	<u>17 429 54</u>
Fund Balance, March 31	<u>-</u>	<u>-</u>	<u>106 605 82</u>	<u>106 605 82</u>

TOWNSHIP OF CUSTER
Mason County, Michigan

GENERAL FUND EXPENDITURES BY DETAILED ACCOUNT

Year ended March 31, 2006

Township Board:	
Wages	4 140 00
Pension	<u>116 10</u>
	4 256 10
Supervisor:	
Salary	6 000 00
Pension	<u>336 00</u>
	6 336 00
Election:	
Wages	<u>1 181 29</u>
Clerk:	
Salary	6 000 00
Pension	336 00
Miscellaneous	<u>679 93</u>
	7 015 93
Assessor:	
Contracted services	8 809 40
Miscellaneous	<u>3 114 39</u>
	11 923 79
Board of Review:	
Wages	493 50
Miscellaneous	<u>125 34</u>
	618 84
Treasurer:	
Salary	7 600 00
Miscellaneous	<u>3 019 22</u>
	10 619 22
Cemetery:	
Wages	3 510 00
Contracted services	5 718 23
Miscellaneous	<u>3 379 78</u>
	12 608 01
Building and grounds:	
Rent	<u>1 200 00</u>
Unallocated:	
Dues	673 57
Insurance	4 849 00
Clean up	3 116 20
Payroll tax	862 62
Miscellaneous	<u>1 258 09</u>
	10 759 48
Fire protection:	
Wages	800 00
Contracted services	9 973 81
Miscellaneous	<u>222 51</u>
	10 996 32

TOWNSHIP OF CUSTER
Mason County, Michigan

GENERAL FUND EXPENDITURES BY DETAILED ACCOUNT
Year Ended March 31, 2006

Highways and streets: Contracted services	<u>29 617 39</u>
Parks and recreation	<u>1 000 00</u>
Capital outlay	<u>5 800 00</u>
Total Expenditures	<u><u>113 932 37</u></u>

TOWNSHIP OF CUSTER
Mason County, Michigan

CURRENT TAX COLLECTION FUND
STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
Year ended March 31, 2006

	<u>Balance</u> <u>4/1/05</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>3/31/06</u>
<u>Assets</u>				
Cash in Bank	<u>72 51</u>	<u>844 374 89</u>	<u>844 051 23</u>	<u>396 17</u>
<u>Liabilities</u>				
Due to other funds	72 51	37 720 36	37 396 70	396 17
Due to others	<u>-</u>	<u>806 654 53</u>	<u>806 654 53</u>	<u>-</u>
Total Liabilities	<u>72 51</u>	<u>844 374 89</u>	<u>844 051 23</u>	<u>396 17</u>

CAMPBELL, KUSTERER & CO., P.C.

CERTIFIED PUBLIC ACCOUNTANTS

MARK J. CAMPBELL, CPA
KENNETH P. KUSTERER, CPA

512 N. LINCOLN AVE. - SUITE 100
P.O. BOX 686
BAY CITY, MICHIGAN 48707

TEL (989) 894-1040
FAX (989) 894-5494

AUDIT COMMUNICATION AND REPORT OF COMMENTS AND RECOMMENDATIONS

June 29, 2006

To the Township Board
Township of Custer
Mason County, Michigan

We have audited the financial statements of the Township of Custer for the the year ended March 31, 2006. As required by auditing standards generally accepted in the United States, the independent auditor is required to make several communications to the governing body having oversight responsibility for the audit. The purpose of this communication is to provide you with additional information regarding the scope and results of our audit that may assist you with your oversight responsibilities of the financial reporting process for which management is responsible.

AUDITOR'S RESPONSIBILITY UNDER AUDITING STANDARDS GENERALLY ACCEPTED IN THE UNITED STATES

We conducted our audit of the financial statements of the Township of Custer in accordance with auditing standards generally accepted in the United States. The following paragraph explains our responsibilities under those standards.

Management has the responsibility for adopting sound accounting policies, for maintaining an adequate and effective system of accounts, for the safeguarding of assets, and for devising an internal control structure that will, among other things, help assure the proper recording of transactions. The transactions that should be reflected in the accounts and in the financial statements are matters within the direct knowledge and control of management. Our knowledge of such transactions is limited to that acquired through our audit. Accordingly, the fairness of representations made through the financial statements is an implicit and integral part of management's accounts and records. However, our responsibility for the financial statements is confined to the expression of an opinion on them. The financial statements remain the responsibility of management.

The concept of materiality is inherent in the work of an independent auditor. An auditor places greater emphasis on those items that have, on a relative basis, more importance to the financial statements and greater possibilities of material error than those items of lesser importance or those in which the possibility of material error is remote.

For this purpose, materiality has been defined as "the magnitude of an omission or misstatement of accounting information that, in light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would have been changed or influenced by the omission or misstatement."

An independent auditor's objective in an audit is to obtain sufficient competent evidential matter to provide a reasonable basis for forming an opinion on the financial statements. In doing so, the auditor must work within economic limits; the opinion, to be economically useful, must be formed within a reasonable length of time and at reasonable cost. That is why an auditor's work is based on selected tests rather than an attempt to verify all transactions. Since evidence is examined on a test basis only, an audit provides only reasonable assurance, rather than absolute assurance, that financial statements are free of material misstatement. Thus, there is a risk that audited financial statements may contain undiscovered material errors or fraud. The existence of that risk is implicit in the phrase in the audit report, "in our opinion."

To the Township Board
Township of Custer
Mason County, Michigan

In the audit process, we gain an understanding of the internal control structure of an entity for the purpose of assisting in determining the nature, timing, and extent of audit testing. Our understanding is obtained by inquiry of management, testing transactions, and observation and review of documents and records. The amount of work done is not sufficient to provide a basis for an opinion on the adequacy of the internal control structure.

SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies are described in Note 1 to the financial statements.

OTHER COMMUNICATIONS

Auditing standards call for us to inform you of other significant issues such as, but not limited to, 1) Accounting estimates that are particularly sensitive because of their significance to the financial statements or because of the possibility that future events affecting them may differ markedly from management's current judgments; 2) Significant audit adjustments that may not have been detected except through the auditing procedures we performed; 3) Disagreements with management regarding the scope of the audit or application of accounting principles; 4) Consultation with other accountants; 5) Major issues discussed with management prior to retention; and 6) Difficulties encountered in performing the audit.

We have no significant issues, regarding these matters, to report to you at this time. Audit adjustments were minimal, and are available to review.

GASB 34 IMPLEMENTATION

The Governmental Accounting Standards Board issued a new reporting model for governmental units which was required to be implemented for the fiscal year ended March 31, 2006. The implementation of this pronouncement for the Township of Custer began with the year ended March 31, 2006. The daily operations and recording transactions did not change significantly, however, the Township is required to maintain additional records for the year end adjustments to the final presentation format.

COMMENTS AND RECOMMENDATION REGARDING INTERNAL CONTROLS/ COMPLIANCE/ EFFICIENCY

Our procedures disclosed the following conditions that we would like to bring to your attention:

SEGREGATION OF DUTIES

A separation of duties between persons who authorize transactions and persons who have control over the related assets does not always exist.

The least desirable accounting system is one in which an employee is responsible for executing the transaction and then recording the transaction from its origin to its ultimate posting in the General Ledger. This increases the likelihood that intentional or unintentional errors will go undetected. In most cases, adequate segregation of duties substantially increases control over errors without duplication of effort.

We understand that due to the size of needed staff, a proper segregation of duties may be impractical and the "cost to benefit" relationship may not justify the addition of accounting staff to accomplish the desired segregation.

These conditions were considered in determining the nature, timing and extent of the audit tests to be applied in our audit of the Township's financial statements and this communication of these matters does not affect our report on the Township's financial statements, dated March 31, 2006.

To the Township Board
Township of Custer
Mason County, Michigan

SUMMARY

We welcome any questions you may have regarding the foregoing comments and we would be happy to discuss any of these or other questions that you might have at your convenience.

Sincerely,

Campbell, Kusterer & CO., P.C.

CAMPBELL, KUSTERER & CO., P.C.
Certified Public Accountants